

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 PA-02 PRS-01 AGR-10 /104 W

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R 231040Z JUL 76

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 6713

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

UNCLAS ISLAMABAD 7557

E.O. 11652: N/A

TAGS: ETRD, PK, MTN, BAYP,

SUBJ: IMPORT POLICY FOR 1976/77

BEGIN: SUMMARY:- THE IMPORT POLICY FOR 1976/77, ANNOUNCED JUNE 30, CONTINUES THE FOUR-YEAR OLD GOP POLICY OF TRADE LIBERALIZATION AND SHOULD SERVE TO INCREASE US EXPORTS TO PAKISTAN,. ENCOURAGE PRIVATE SECTOR INVESTMENT TO UPGRADE INDUSTRIAL EQUIPMENT, AND PERHAPS CURB SMUGGLING. THE POLICY SHOULD ALSO HAVE SOME POSITIVE IMPACT ON DOMESTIC CUTOMS DUTY COLLECTIONS. SOME EIGHTEEN ITEMS OF MACHINERY, INDUSTRIAL RAW MATERIALS AND CONSUMER ITEMS HAVE BEEN ADDED TO THE FREE LIST. THE ANNUAL MONETARY CEILINGS FOR THE IMPORT OF MACHINERY BOTH UNDER CASH OR AID LICENSING FOR MODERNIZATION AND REPLACEMENT ARE INCREASED. THE IMPORTATION OF TRACTORS, FERTILIZERS AND PESTICIDES, WHICH IS CONDUCTED ONLY THROUGH GOP AGENCIES, IS ENCOURAGED. END SUMMARY.

1. THE GOP TRADITIONALLY ANNOUNCES ITS ANNUAL IMPORT POLICY IN EARLY SUMMER SHORTLY AFTER THE BUDGET. THIS YEAR'S POLICY CONTINUES THE GOP'S TRADE LIBERALIZATION TREND AND MAINTAINS THE PRACTICE OF HAVING THREE BASIC  
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LISTS OF ALLOWABLE IMPORTS: (A) A " FREE LIST " WHICH

IS FINANCED FROM FREE FOREIGN EXCHANGE; (B) A "TIED LIST" RESTRICTED TO FINANCING WITH TIED CREDITS OR BARTER ARRANGEMENTS; AND (C) A SHORT LIST OF ITEMS WHICH ONLY THE STATE-OWNED AGENCIES MAY IMPORT. ITEMS NOT ON THESE LISTS MAY NOT BE IMPORTED.

2. THE MAIN POINTS ANNOUNCED IN THE 1976/77 POLICY ARE AS FOLLOWS:

- (A) THE FREE LIST IS RAISED TO 407 ITEMS, FROM 389.
- (B) THE TIED LIST IS REDUCED TO 18 ITEMS, FROM 29.
- (C) THE PERIOD FOR OPENING LETTERS OF CREDIT AGAINST CASH LICENSES IS EXTENDED FROM 30 TO 45 DAYS.
- (D) THE ANNUAL MONETARY LIMITS FOR THE IMPORT OF MACHINERY AND MILLWORK FOR BALANCING, MODERNIZATION AND REPLACEMENT FOR ANY SINGLE CASH LICENSE IS RAISED TO RS. 1,500,000 FROM RS. 750,000, AND UNDER BARTER TO RS. 2,000,000 FROM RS. 1,500,000.
- (E) SOME OF THE ITEMS UNDER THE HEADING OF "TOOLS AND WORKSHOP EQUIPMENT" PRESENTLY ON THE TIED LIST OR WHICH WERE NOT IMPORTABLE INTO PAKISTAN ARE NOT PLACED ON THE FREE LIST.
- (F) SOME ESSENTIAL INDUSTRIAL RAW MATERIALS AT PRESENT ON THE TIED LIST OR WHICH WERE NOT IMPORTABLE BEFORE ARE ALSO PLACED ON THE FREE LIST.
- (G) ALUMINUM SHEETS AND PLATES, COPPER TUBES AND PIPES, AND GALVANIZED IRON AND STEEL SHEETS ARE TRANSFERRED FROM PART B OF THE FREE LIST, WHICH IS RESTRICTED TO THE PUBLIC SECTOR, TO PART A WHICH ALLOWS IMPORTS BY THE PRIVATE SECTOR.
- (H) SOME CONSUMER GOODS PRESENTLY IN SHORT SUPPLY ARE BEING SMUGGLED INTO THE COUNTRY IN LARGE QUANTITIES ARE PLACED ON THE FREE LIST. AMONG THEM ARE SANITARY-WARES, AIR CONDITIONERS, REFRIGERATORS, ELECTRIC BULBS AND TUBES, TAPE-RECORDERS, RAZOR SETS AND BLADES, EARTHEN, CHINA OR PORCELAIN TABLE WARES, ALUMINUM ENAMELLED IRON WASH BASINS AND SINKS, DRY BATTERY CELLS, AND NICKEL CADMIUM CELLS.
- (J) THE IMPORT OF TRACTORS, FERTILIZERS, AND PESTICIDES UNDER STATE-OWNED AGENCY LICENSING WILL CONTINUE TO BE ALLOWED ON AN INCREASED SCALE.

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3. COMMENT: THE NEW POLICY SHOULD PROVIDE SOME BENEFIT TO US EXPORTERS. THE LIBERALIZATION OF CERTAIN MACHINERY AND TOOLS CATEGORIES, AIR CONDITIONERS AND REFRIGERATORS, AND THE GOVERNMENT'S WILLINGNESS TO IMPORT SUBSTANTIAL QUANTITIES OF FERTILIZERS AND PESTICIDES PROVIDE NEW OPPORTUNITIES WHILE THE INCREASED CASH IMPORT CEILINGS ON INDIVIDUAL IMPORT ITEMS MAY OFFER SOME MARGINAL

OPPORTUNITIES.

4. IN TERMS OF THE IMPACT ON PAKISTAN'S ECONOMY, THE INCREASE IN FOREIGN EXCHANGE AVAILABILITY FOR MODERNIZATION AND REPLACEMENT PURPOSES MAY HELP STIMULATE INVESTMENT IN THE PRIVATE SECTOR AND AS SUCH HAS BEEN WELCOMED BY PRIVATE SECTOR SPOKESMEN. THE CONTINUING LIBERALIZATION OF THE IMPORT LIST, DESPITE BALANCE OF PAYMENTS PRESSURES, REPRESENTS IN PART A DECISION TO AVOID SOME OF THE ECONOMIC DISTORTIONS WHICH WERE COMMON UNDER THE RESTRICTIVE IMPORT POLICIES BEFORE THE 1972 DEVALUATION AND IN PART AN EFFORT TO KEEP INFLATIONARY PRESSURES DOWN. THE OVERALL EFFECT ON THE BALANCE OF PAYMENTS IS EXPECTED TO BE SMALL. SINCE THE GOVERNMENT CAN STILL CONTROL THE TIMING OF GRANTING CASH LETTERS OF CREDIT NECESSARY TO USE FREE FOREIGN EXCHANGE, IT STILL RETAINS A POLICY TOOL TO RESTRAIN LEVELS OF IMPORTS.

5. IN THE CASE OF THE CONSUMER ITEMS MOVED FROM THE BANNED TO THE FREE LIST, THIS YEAR'S POLICY ALSO REPRESENTS AN ACCOMMODATION TO REALITY. THE ITEMS ARE IN MOST CASES NOT ESSENTIAL BUT, SINCE BANNING THEIR IMPORT HAD NOT WORKED, THE GOP HAS EVIDENTLY DECIDED TO SEEK THE REVENUE BENEFIT OF THE HEAVY DUTIES APPLIED TO THEM RATHER THAN LET SMUGGLERS REAP THE ENTIRE PROCEEDS. HOWEVER, THESE DUTIES RANGE BETWEEN 90 AND 150 PERCENT AND MAY PROVIDE SOME CONTINUED INCENTIVE FOR SMUGGLING. AT THE SAME TIME, PRICES OF SOME OF THESE GOODS HAVE APPARENTLY FALLEN 10 TO 15 PERCENT INDICATING AN EXPECTATION OF INCREASED SUPPLIES AND COMPETITION.

6. WHILE THE ANNUAL IMPORT POLICY IS DESIGNED TO SET THE POLICY FOR THE COMING YEAR, IN PRACTICE POLICY UNCLASSIFIED

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ADJUSTMENTS ARE OFTEN MADE THROUGHOUT THE YEAR. FOR EXAMPLE, TWO MONTHS AGO, IN ADVANCE OF THE ANNOUNCEMENT OF THE IMPORT POLICY, A GENERAL TEN PERCENT TARIFF INCREASE WAS ANNOUNCED AS PART OF THE GOVERNMENT'S NEW FISCAL MEASURES.

7. THIS MESSAGE INCLUDES CONTRIBUTIONS FROM CONGEN KARACHI. BYROADE

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